



Dion Kidd

President/Chief Operating Officer/Chief Risk Officer

September 29, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W. Washington, D.C. 20551

Re: **Basel III Docket No. 1442**

Dear Ms. Johnson:

Thank you for the opportunity to provide comment on the Basel III proposals¹ that were recently issued for public comment by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I have been a community banker in rural New Mexico since 1986. I moved to Western Bank (\$67 Million in Assets) in Alamogordo New Mexico as President, COO and CRO in January 2006. Previously I was Vice President of another community bank, Western Commerce Bank (\$300 Million in Assets) in Carlsbad New Mexico for 20 years. 26 years of working in the community banking industry has provided me with the opportunity of serving the rural communities of the state of New Mexico. My career has allowed me to operate community banks in Clovis, Portales, Tatum, Lovington, Hobbs, Loving, Carlsbad, Albuquerque, Las Cruces, Cloudcroft, Tularosa and Alamogordo New Mexico. Each of these banks serves a distinctly different population base, yet all serve small rural communities. I have assisted with the financial needs of consumers, farmers, ranchers, and small businessmen and women in these communities for the past 26 years, and never before 2011 have I ever been more concerned for the financial welfare of our rural New Mexico communities.

¹ The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

As a provider of financial services, I am cognizant of the financial crises our nation has been working through since 2009. However, as I am certain you have heard many times, community banks (most especially our community banks) did not participate in, nor support the forms of predatory lending, and risky investing which, due to de-regulation, and, or, no regulation, resulted in the financial crises. Having said this, I must point out that community banks (true COMMUNITY) banks have always been committed to making sound credit decisions that facilitate our rural community customer's ability to obtain reasonably priced financial products which might not otherwise be available from a large financial institution. It has always been our mission to serve the "underserved" and the borrowers that basically get "kicked to the curb" by the larger conglomerate banks, because our rural community customer's financial needs do not typically "fit into a box".

My institution has spent untold dollars re-organizing our staff and re-defining policies and procedures in accordance with Dodd-Frank and CFPB guidelines and proposed regulations, just to be able to stay in the game. My institution does not have the ability or a department which processes residential home loans that are saleable in the secondary market. We have always provided our rural community customers who are unable to qualify for such residential loans, with our "in-house" alternative financing for the purchase of, and/or refinancing of their homes. Our customers have always been treated with genuine respect and all loan terms have been fully disclosed and discussed with each customer. The beauty of the type of residential real estate lending our institution provides, is that in hard times, our bank has the ability to work with our customer and re-address the terms and conditions of their residential loan so that they are able to work through financial difficulties without losing their home. We have never made a variable rate residential loan. We have, however, always added a balloon feature as an opportunity to re-price the long term (30 year) loan in order to maintain a positive interest margin in line with the current interest rate environment. This ability to mitigate our interest rate risk is a safe and sound practice, a regulatory requirement, and benefits our organization and our share holders.

Consequently, the Basel III proposals, as they now stand, will result in our institution having to immediately cease our in-house residential financing programs, and leave our communities and rural consumers with no ability to purchase, or refinance their homes if they do not "fit into the box" of the financial products offered through the secondary market financing. My bank will not be able to re-finance existing residential loans as they mature on the existing balloons in place. As these loans come due, we will be unable to offer 30-year fixed rate financing at the current interest rate levels, and continue to satisfy the mitigation of future interest rate risk as required by our regulators. This will result in our rural community consumers having to search out non-traditional financing (predatory lenders) in order not to lose their homes to foreclosure. I am certain that the purpose and intent of the Basel III proposal was not to further restrict credit to rural consumers, nor to push the nation back into a mortgage financial crisis.

I currently have \$12 million in 1-4 family residential loans with balloons on my balance sheet. With the 150% risk weight requirement as proposed in Basel III, our bank will be unable to re-finance these loans as they mature. Not one of these loans qualified through the secondary market home loan financing programs at the time of origination; they are even less likely to qualify now due to stricter regulatory requirements placed on this type of lending with the creation of the CFPB and the Dodd-Frank regulations. This situation will affect over 300 of our rural community consumers over the next 5 years. What are these customers supposed to do when their loans mature so that they do not lose their homes?

In addition, the high volatility commercial real estate risk weight proposal of the Basel III will immediately affect economic activity and growth in the rural communities served by my institution. The niche Western Bank serves in our community is that of lending to small business and start-up businesses utilizing the government guaranteed lending programs (SBA, USDA, and FSA). Within the SBA, Western Bank is able to utilize the 504 lending program which assists building of facilities which generate jobs in our rural communities. This 504 program allows the borrower to obtain financing of building projects with as little as 10% equity investment. The program allows Western Bank to finance 90% of the project during construction (which at times could take as long as one year). Upon completion of construction, the SBA sells a debenture, taking 40% of the project from the bank, leaving the bank with a 50% loan-to-value.

It is important to understand that at this time, Western Bank is currently financing two such projects, one of which will create over 30 jobs in Dona Ana County. If the bank were to risk weigh these two loans under the High Volatility Commercial Real Estate risk weight of 150% (as described in the proposed Basel III) it would result in the bank having to hold \$831,744 in additional capital until the construction is completed. If Basel III is adopted as proposed, Western Bank will no longer be able to finance these types of commercial businesses. The consequence will be less job growth, less development, and less economic recovery in the rural communities. At the present time, we are enjoying a 74% loan-to-deposit ratio, while our main competitor's loan-to-deposit ratio is a mere 34%. If Western Bank reduces its lending in the Alamogordo community, I am truly concerned how small businesses will obtain financing for start-up operations or entertain any sort of expansion.

I have only discussed two of the areas of the proposed Basel III which will impact my bank and the rural communities within which we serve. There are many other concerns within the proposed Basel III that I believe will negatively impact the ability of Western Bank to continue to provide the financial services in rural New Mexico. Although our risk weighted capital is currently a strong 26%, and the impact of Basel III as proposed will take time before its effects will be felt by Western Bank, I do know that I, as President, COO, and CRO, will have to immediately stop the type of lending which is necessary for our economy to recover from the financial crises. It would not be prudent for our bank to continue to book the type of loans which require a 150% risk weight. I feel strongly that if Basel III is implemented as proposed, it will have a devastating effect on not only community banks throughout the nation, but upon

the consumers and businesses which will no longer have alternative means of obtaining financing in these difficult economic times.

Another un-intended consequence of implementing Basel III, in my opinion, is the fact that the Community banks will no longer be able to service our small business customer's financing needs. With having to risk weigh 150% of these types of loans, the banks will not be actively lending to our small business customers. I feel as if the Credit Unions had foresight of this issue coming down on the Community banks, as they have been introducing legislation which will enlarge the percentage of assets which they are able to lend to small business. I must ask why anyone would support Basel III when it will result in a much more un-level playing field between Community banks and Credit Unions. Credit Unions already have a much larger advantage in not paying taxes, but with them being able to provide the types of financing to our commercial customers, without the same regulations under which we must function, enables them to take on a much larger presence in commercial lending. My fear is that they will take on much more commercial debt, of the types they are not trained to service, and eventually (like the Savings and Loan Crises in the 80's), the FDIC insurance, and, thus the Community Banks, will be bailing them out in the future.

Community banks have stepped up to the plate in order to assist in the economic recovery from a financial crisis of which we had no role in creating. We have taken the lead in helping small businesses and farmers withstand tough economic times. Our country and future generations rely upon community banks and the services we provide. I must ask that you ensure Basel III is not implemented as proposed, or that if you must move forward with this regulation, that you exempt all community banks from this regulation. I do not see a way of carving anything out that would benefit our communities, or our country. The un-intended consequences will be dire, and only the "too big to fail" institutions will be standing at the end. If Basel III is not passed, the "too big to fail" will still be standing but the community bank will be able to stand strongly beside them into the next century, and in support of the small businesses, the farmers, and our rural citizens.

I appreciate your reading my comments. If you have questions, or would like to discuss further, please feel free to contact me. I would love to visit with you directly.

Sincerely:

A handwritten signature in black ink that reads "Dion Kidd". The signature is written in a cursive, slightly stylized font.

Dion Kidd
President, COO, CRO